

30 October 2023

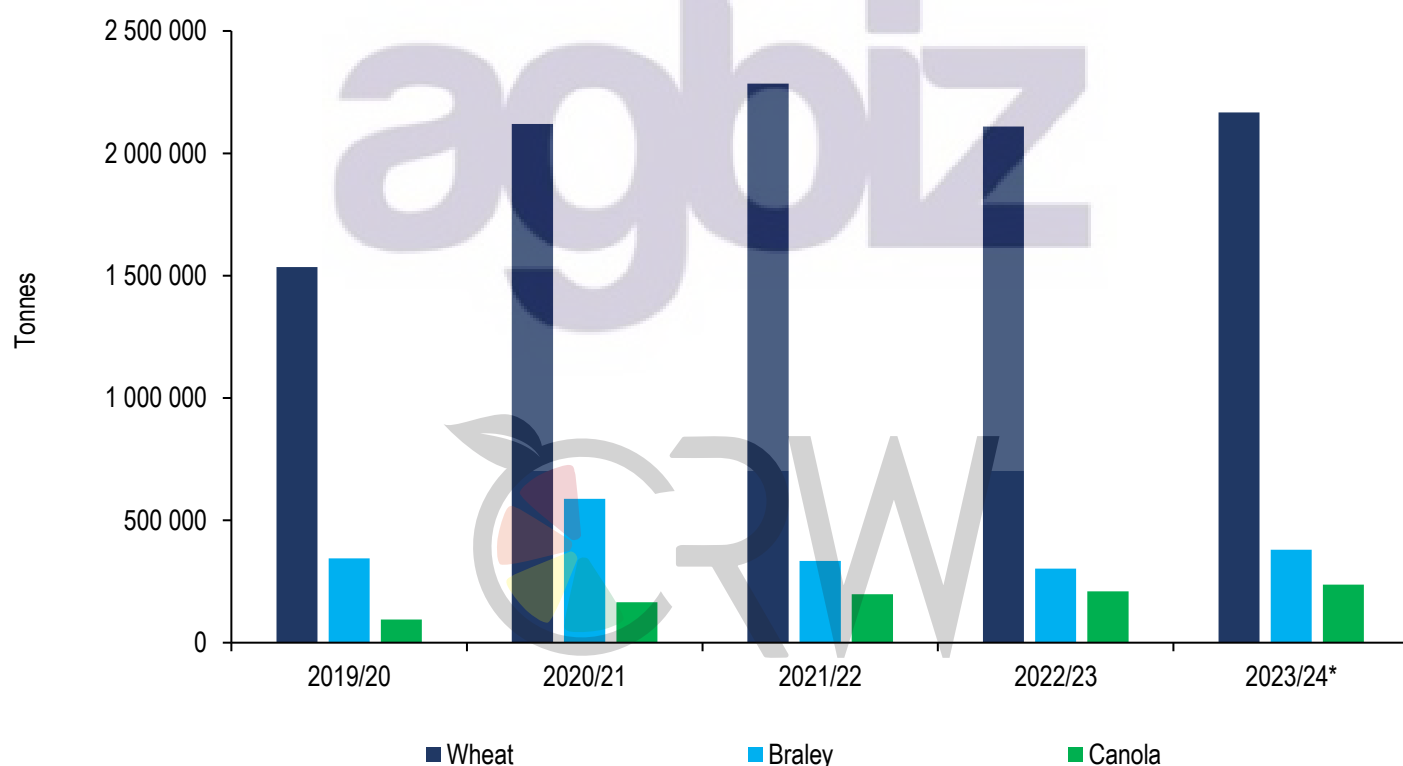
Taking stock of winter crops a month after the devastating floods

- This past week, we received comprehensive data about South Africa's winter crop conditions for the first time since the devastating floods in the Western Cape in September. The Western Cape is a significant producer of winter crops, accounting for roughly two-thirds of South Africa's total winter crop output. As such, we were concerned that the damages caused by the floods in the province would have a notable impact on national level output.
- But the data released by the Crop Estimates Committee (CEC) this past week paints a comforting picture. The CEC released its third production estimates for winter crops and lifted wheat harvest projection by 2% from September, estimated at 2,17 million tonnes. The current expected crop is up 3% from the previous season. This was a positive surprise as we had expected that the crop size could be lowered, especially if one considers the severity of the floods in the southern regions of the Western Cape.
- The provinces behind this robust national wheat harvest forecast are the Western Cape (53% of the overall harvest), Northern Cape, Free State and Limpopo. Admittedly, while the Northern Cape and Free State are still amongst the leading wheat producers, their expected harvest is less than the 2022/23 season. The expected large harvest in the Western Cape and Limpopo overshadows the decline in harvest in other provinces. There are also likely decent wheat harvests in other provinces such as KwaZulu-Natal, Eastern Cape and North West.
- Notably, the expected 2,17 million tonnes is well above the 10-year average harvest of 1,80 million tonnes. If there are no significant changes in the crop forecast in the coming months, one can be confident that the current estimated wheat harvest implies that South Africa will likely need to import about 1.60 million tonnes to meet domestic consumption in the 2023/24 season (down from the forecast 1.70 million tonnes in the 2022/23 season).
- Furthermore, the 2023/24 canola crop was lifted by 3% from the previous month to a record 237 450 tonnes (up 13% y/y). The annual increase is also due to increased plantings and expected better yields. Regarding barley and oats, however, the CEC lowered its production forecasts by 3% and 19% to 380 120 tonnes and 41 600 tonnes, respectively. It appears that the floods damaged these crops more than wheat and canola. Still, barley and oats are well above the 2022/23 harvest level, mainly supported by an expansion in the planted area and the anticipated better yields in some regions.
- As encouraging as the overall winter crop picture is, there remain concerns about the quality of the crop, particularly wheat. Given that the Western Cape accounts for over half of South Africa's wheat production, if the quality has deteriorated notably, then the import figured that we have, at 1,60

million tonnes, may need to be revised. Still, it is too early to formulate a strong view on this. It will be some time before we start having a better sense of when farmers start harvesting. For now, one could consider this as a potential downside risk. The available data shows that the harvest is in better shape and that the floods had minimal impact on the winter crops.

- Beyond the crops, there is significant damage to infrastructure within the southern regions of the Western Cape, which is vital for storing and transporting agricultural products to the market. This includes the road networks, storage facilities and electricity infrastructure. But some of this is now under rebuilding phases as the communities recover from the floods. The fruits and winegrape-producing regions are among the areas that reported such damage over the past couple of weeks and are now rebuilding.
- Overall, while the severe flood have left damage across various communities and for many businesses that will take some time to recover from, one positive aspect is that the winter crops remain reasonably good. Additionally, dams in the Western Cape are generally full. The dam improvement will significantly help irrigate the horticulture fields in the coming months, all supporting agricultural activity in the province.

Exhibit I: South Africa's winter crop production



Source: CEC and Agbiz Research

WEEKLY HIGHLIGHT

SA farmers' intentions to plant data point to prospects of a decent grain and oilseed crop in the 2023/24 season

- Although El Niño is on our doorstep, we have generally held an optimistic view about South Africa's 2023/24 summer grains and oilseed production season. The excellent soil moisture from the past rainy seasons and prospects of rainfall throughout 2023 have convinced us that there may still be decent summer grain and oilseed plantings. The South African Weather Service expects the El Niño induced dryness or below-normal rainfall to mainly be a reality from the start of 2024 and the current year to bring favourable showers still. Furthermore, farmers in our various engagements across the country have generally signalled that they would still plant the typical summer grain and oilseed area.
- The data released by the Crop Estimates Committee (CEC) last week reaffirmed our positive view. The CEC indicates that South African farmers intend to plant a total area of 4,47 million hectares of summer grain and oilseed in the 2023/24 season, up 2% y/y.
- A deep dive into the numbers shows that 2023/24 maize planting intention is 2,63 million hectares, up 2% y/y, and well above the 10-year average area of 2,53 million hectares. About 1,58 million hectares is white maize (up 4% y/y), and 1,05 million hectares is yellow maize (down 1% y/y). The sunflower seed planting could increase by 15% y/y from the 2022/23 season to 640 000 hectares, which is also well above the 10-year average. Sorghum area could lift by 12% y/y to 38 000 hectares (which is still below the 10-year average of 51 102 hectares). The groundnut area will likely increase significantly by 36% y/y to 42 550 hectares (slightly lower than the 10-year average of 43 143 hectares). The dry beans planting intentions are up by 15% y/y, estimated at 42 300 hectares. Surprisingly, the soybean area plantings could fall 7% y/y to 1,07 million hectares.
- It is still early in the season, and we will only have a preliminary area planting estimate for the 2023/24 season at the end of January 2024. Still, these intentions to plant paint an encouraging picture. From now on, we will be watching the rainfall and the temperature conditions across the country. Our baseline view is that with improved soil moisture from the last rainy seasons, mainly in east and central South Africa, the expected El Niño will likely have minimal impact on the agricultural conditions. With that said, we remain concerned about the far western regions of South Africa. Firstly, there is anecdotal evidence that soil moisture in these regions is not as conducive as in the other areas of South Africa because of drier weather conditions towards the end of the 2022/23 production season. Secondly, the South African Weather Service indicates stronger prospects of rainfall in the coming months in the northern, central and eastern regions of South Africa, with less emphasis on the far western areas. The production conditions in these regions require constant monitoring, and any harsh conditions would mainly negatively affect white maize and sunflower seed plantings, the predominant crops in these areas.
- Also worth noting is that farmers are planting in the 2023/24 season with relatively better agricultural input prices than the last season, although not fully back to pre-COVID-19 levels. For example, in September 2023, fertilizer prices were down, on average, by roughly 50% from a year ago. Since

fertilizer accounts for about a third of grain farmers' input costs, such price declines will positively impact their finances. Moreover, the fungicides and insecticides prices are down, on average, by roughly 20% from a year ago. We see similar price declines in herbicide prices.

- Admittedly, the commodity prices have also declined from levels we saw a year ago, which means there aren't necessarily large profits to be made in crop farming. Still, this input cost environment is more forgiving than a year ago, and the weather conditions are not as harsh as some may have feared. All this is a recipe for yet another decent agricultural season.

WEEK AHEAD

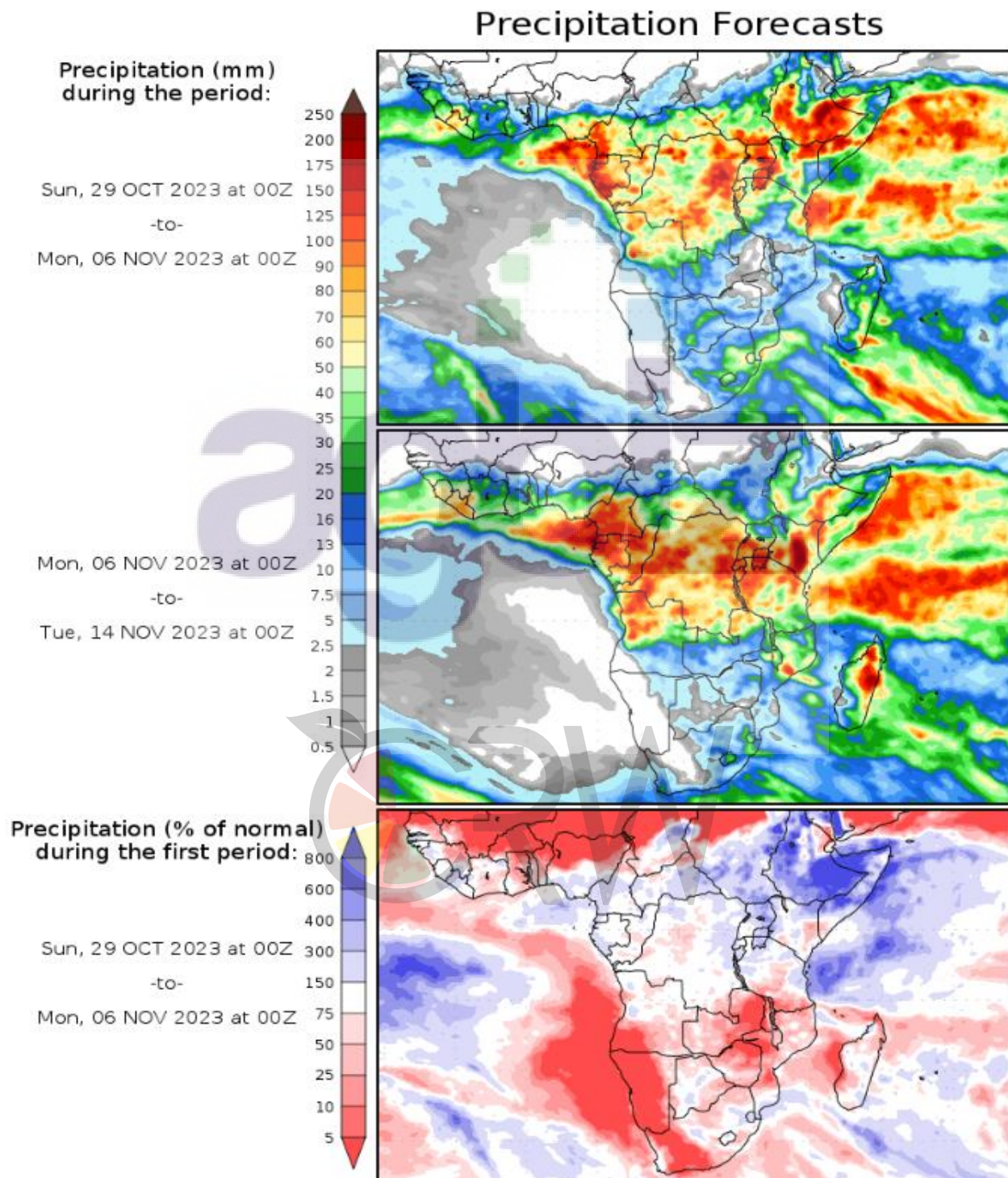
What we are watching this week

- We start a global focus, and today, the United States Department of Agriculture (USDA) will release its weekly update of the **US Crop Progress Report**. The harvest of maize and soybeans is in full swing in several States. On October 22, 59% of the maize crop had already been harvested, which is in line with last season and slightly above the five-year average harvest pace of 54%. The crop is mainly of good quality. At the same time, 76% of the soybean crop had already been harvested, slightly below last season's pace of 78% but well above the five-year average of 67%. Moreover, USDA will release the **Grains and Oilseeds World Trade** data on Thursday.
- On Friday, the FAO will release its monthly **Food Price Index**, a measure of the monthly change in international prices of a basket of food commodities. The Index averaged 121.5 points in September 2023, almost unchanged from its value in August, as declines in the price indices of vegetable oils, dairy and meat had offset increases in the sugar and cereal price indices.
- On the domestic front, on Wednesday, SAGIS will release its weekly **South Africa's Grains and Oilseeds Producer Deliveries** data for October 27. In the previous release on October 20, South Africa's 2023/24 maize producer deliveries were about 47 048 tonnes. This placed the 2023/24 deliveries at 14,4 million tonnes out of the expected harvest of 16,4 million. On the same day, the soybean deliveries were about 2,7 million tonnes of soybeans out of the expected crop of 2,8 million tonnes. The sunflower seed producer deliveries amounted to 711 806 tonnes out of the expected harvest of 729 110 tonnes.
- On Thursday, SAGIS will publish its weekly **South Africa's Grains and Oilseeds Trade** data for October 27. In the previous release on October 20, the 25th week of the 2023/24 marketing year, South Africa exported 53 308 tonnes of maize. Of this volume, 43% was exported to Japan and the balance to the neighbouring African countries. This placed South Africa's 2023/24 maize exports at 2,11 million tonnes out of the seasonal export forecast of 3,33 million.
- South Africa is a net wheat importer, and October 20 was the third week of the new 2023/24 marketing year. There were weekly import volumes of 65 169 tonnes from Lithuania, Poland, and Russia. This placed South Africa's 2023/24 wheat import at 210 972 tonnes out of the seasonal forecast of 1,6 million tonnes (down from 1,7 million tonnes in the 2022/23 season).

South Africa's Precipitation forecast

- The weather forecast for the week shows that the summer crop-growing regions of South Africa could receive rainfall, which supports the planting activity currently underway across the country. Meanwhile, the Western Cape could see drier weather, much needed after the recent floods.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)